

FINANCIAL CRISES BETWEEN THE POSTURAL ECONOMY THOUGHT AND THE THOUGHT OF THE ISLAMIC ECONOMY

Mohammed Al-Momani, Assistant Prof.

Department of Islamic Banking, Faculty Of Business Administration,
Ajloun National University, Ajloun, Jordan

Abstract

This study aimed to identify the various financial crises by knowing their causes and effects and then figuring out the solutions to the crises which the postural economy posed. Therefore, this hassled to the claims by Islamic economics solutions, where by the researcher uses the descriptive method that describes the problem in question to achieve its objectives. This was attained through the study of documents, books and research related to the study to show the theoretical background of the financial crises. In the light of this, the researcher concluded on a number of important results that the postural economy is based on al gharar (buying something without knowing the result of the bargain, such as selling fish in the sea, birds in the air), and usury which is forbidden in the Islamic economy. In addition, Islamic religion forbids the abuse of people's wealth unlawfully, but calls for all kinds of investment based on profits gained by the loss base.

Keywords: Financial Crises, postural economy, islamic economy

Introduction:

Financial crises are caused by the postural economy due to its nature and mechanisms based on the scourge of usury which usually affects this kind of economy. As stated by Allah in this verse: " Allah will deprive usury of all blessing, but will give increase for deeds of charity: For He loved not creatures ungrateful and wicked"(Quran,SuratAl-Bakara,verse276).

For a quick review of this kind of economy, we found that it suffered from several economic crises, such as the crisis of the Great Depression which occurred in 1929. Thus, this has led to the collapse of the U.S. stock market and has resulted to high rates of unemployment, poverty and the bankruptcy of many banks ... etc. Countries in Asia experienced the 1997 financial crisis which began in Thailand and affected other neighboring countries. Also, the global financial crisis which began in the U.S. in 2008,

was described by Dominique A straws, the Managing Director of the International Monetary Fund (IMF) as the most serious crisis faced by the financial markets since the Great Depression in 1929 (Mustafa Hosni, the global financial crisis, 2009, p1); and this crisis is still affecting the world today as it has begun to threaten bankruptcy of some countries such as Greece and Portugal. Hence, he expressed his fears that this crisis will expand to other European countries.

In this study, there will be a great focus on the crisis being the latest in the history of financial crises, and its worst and most violent impact on the world's economy. However, such crises were not far from the expectations of the postural economists, but issued several warnings that the postural economy will face similar crisis. Some of these warnings was issued by Ben Bernanke, Chairman of U.S. Federal Reserve of the deterioration of the U.S. economy, where he said: " The economic situation has become worse and might even get very worst"; he added that: "when one of the areas of risk on the possibility of deterioration of the labor market or the real estate market is larger than what is expected, it will inevitably lead to strict borrowing conditions (<http://www.aletq.com>).

If governments took their precautions in the current era and paid attention to the threat of financial crises and their effects after they were highly affected by its consequences, it will go a long way in averting the problems posed by this financial crisis. The Islamic economy put preventive measures before treatment measures to avoid such crises and their devastating effects on the economy. Surely, this reflects the importance of this study, and it was divided into several major sections where the causes of financial crises and their effects were investigated. Finally, the claims of both the postural and the Islamic economies as solutions to this crisis, has led to the results of this study which showed that the most important of the main reasons for this crisis and earlier crises was that the economy was based on usury which is forbidden in the Islamic religion.

Problems of the study:

Based on what we have mentioned at the forefront of this study, we can formulate the problems of the study through following questions:

1. What are the causes of the financial crisis?
2. What are the effects of this crisis?
3. What are the solutions based on Islamic and postural economies to this crisis?

Objectives of the study:

This study seeks to achieve the following objectives:

1. Identify the reasons for the financial crisis.

2. Ascertain the knowledge of the effects of this crisis.
3. Identify the solutions based on both the Islamic and postural economies to this crisis.

Study Methodology:

The researcher used the descriptive method that describes the problem in question in achieving his objectives, through the study of documents, books and research related to the study to show the theoretical background of the financial crisis, especially those published across the web, because of the novelty of the subject.

The first topic:

The causes of the financial crisis: Before rushing into the causes of the financial crisis, we must address the definition of the crisis in the language and terminology, as follows:

Crisis in the language is the intensity of drought and a barren year (Ibn Manzour, Lisan al-Arab,p16). In the definition of the crisis in the convention, there is no specific meaning to it; however, one of the simplest definition for it is that it a sharp and sudden disturbance in some economic balances, followed by a collapse in the number of financial institutions and then extends to other sectors (Abdul Hamid, stumbled bank Debt and Global Financial banking Crisis, p. 189).

In another definition by one of the researchers, the crisis affecting the financial markets and the credit markets in particular countries may spread and turn into a regional crisis or a global crisis.

However, based on the above definitions, it is clear to us that the most prominent features of the financial crisis were the imbalance between the imports and the expenses of financial institutions. Thus, these institutions would not be able to meet-up with its obligations, thereby resulting to its collapse which expands to the regional and global markets (Abdul Razzaq, What is the Meaning of Crisis,p19).

The causes of the financial crisis:

The experiences of financial crises that have occurred in the world imply that its diseases are similar even if the causes and consequences are different. Thus, they arise from bad banking practices or the bad effects of economic policies and as a result of the two mentioned causes together in many cases. In this study, we referred to the most important causes of the financial crises, especially the 2008 recent financial crisis.

Firstly, is the expansion of mortgage lending. The real estate market in America is one of the largest sources of lending. Since one of the dream of the American citizen is to get a house and live in it together with his family,

he buys the house from the bank debt against the mortgage of this house. Consequently, the U.S. financial institutions which expanded grant housing loans to a large number of people with a weak sense of solvency in their ability to repay loans would affect the financial institutions that granted them the loans. Thus, they were unable to fulfill their obligations which led to their collapse. For example, it has been estimated that mortgage losses were estimated at 300 billion U.S. dollars in the United States alone, and about 550 billion U.S. dollars in the rest of the world (Nasir al-Din, Global Economic Crisis).

In addition, it has been the marketing of real estate for low-income people in a way that its terms seem easy, but these contracts have been drafted as a trap (Shabra;the global financial crisis p 31) which includes contracts clauses which make repayments to rise with the time period of the loan. However, when the inability to pay a one-time occurred, the benefits are taken thrice for the month they do not pay.

Years that preceded this crisis witnessed a lenient remarkable term of credit, and a trend of rising of real estate prices, which encouraged many citizens to borrow to finance the purchase of their own homes. Therefore, the high prices of these properties has led many of them in borrowing against the value that has not been paid and they had to rely on these loans which are mainly on the value of the property, which is increasing constantly in market value to guarantee the loan (Farid, Mortgages and the Global Financial Crisis, p 29).

Second, the securitization of loans is the process of converting assets to securitized negotiable (Sinokrot, Securitization as a Financing and Investment, p 35). It is also referred to as a financial process that allows converting bank loans to be securitized which are accessibly traded in the financial markets, through an independent entity legally of a particular kind. Often, the bank issued these loans leaving the entity that especially holds finance. Thus, they make gain by issuing securities in the financial markets, and investors who buy these securities receive in exchange for the access resulting from loans, thereby allowing the securitization of banks which shift the risk of the loan. The financial client's abandon credit issued will be able to complete their operations with private funds and that makes securitization goes into a broad movement to the decline in the medium and the increasing recourse of the stock market (Abdul Razak, the Global Financial Crisis , p 337) .

During the years 2006-2007, the interest rates rose unexpectedly which has led to an increase in low-income obligations rising burden of the loans they have made. In addition to the loan which is the value of the real estate to guarantee it, many refused to pay because of the extra interests and so, property prices began to fall dramatically (Miqdad, the Financial Crisis

and its expected effects on Palestine). To handle this situation, the banks and real estate companies sold the debt of citizens in the form of bonds to investors to guarantee real estate, who in turn aggravates the problem for the insurance companies that created the crisis. Thus, the insurance companies have begun to take the insurance premiums on the bonds from these investors.

The mortgage lending banks sold this debt to companies inside and outside the United States, and the companies that bought the debt issued letters of guarantee to these companies based on these loans; hence these debts are changed into shares which is bought and sold in the stock exchange.

However, these shares began gambling with credit itself which is a cornerstone of the U.S. economy, and it turned the betting on the debt to a major source of profit. Then, these bonds are re- sold and produced in the parallel market several times as long as those who will buy these bonds are available. Thus, this means that the traded mortgages are again in the market without censorship or controls, and as a result, it has widened the real estate bond market until the end of 2007. In addition, it has amounted to more than a trillion dollars of debt and real estate ranged between 5-6 trillion dollars, which is one-third of United States Gross Domestic Product (U.S. GDP) (Baroody, Tsunami Mortgage to where and when, p 5).

The second topic:

The effects of the financial crisis: This crisis has caused many bad effects to the economy, not only in the United States but has also spread to the rest part of the world. As predicted by many analysts, this crisis will be expanded to be permeated in the world as a whole. Hence, the most prominent scenario excreted by the crisis of bad effects includes:

Falling stock index: Wall Street America by 7.1% and this decline has affected most of the world's stock exchanges such as Frankfurt Stock Exchange index which fell by 8.8%, the Paris Stock Exchange at 5.4%, 3.8% for Madrid, the Tokyo Stock Exchange at 5.1 %, and the Stock Exchange Riyadh to Beirut which is 9.45 to 4.3% respectively (www. aljazeera.net).

The financial crisis has led to scarcity of liquidity in the global markets. Therefore, central banks have taken several policies to stimulate demand, including the expansion of the pumping of large amounts of cash in banks which reached up to 4 trillion dollars as of December 2008(Abdul Razak, the Global Financial Crisis, p 329). However, this has also taken the policy of reducing interest rates; for example, the Federal Bank in the United States reduced the interest rate from 2.5% to 2 % and then to 1.5%.Though it was 4.25% at the beginning of the crisis, the European Central Bank cut its benchmark interest rate from 4.5% to 3.75% (www.iefpedia.com).

The crisis has also led to a rise in unemployment rate which has been registered at its highest level of 16 years in the United States. However, it stood at the average of 7.7%, which has also led to a rise in the unemployment rate in Canada to 2.7%, in addition to the sacking of about 129 thousand employees (<http://www.elaph.com>).

Not only was the impact of the crisis felt in the United States, but it also influenced Europe. For instance in Britain, the National Institute of Economic and Social Research announced that the economy shrank by 1.7% reducing the level of economic activity by 3.3% from its peak in April 2008, and this declining rate was considered to be the fastest in the past 25 years ago (<http://news.syriarose.com>).

The third topic:

Solutions to the postural economy for the crisis: Basically, there were diversified solutions and policies addressed for this crisis; some solutions were at the level of a single state, while others were at the international level (such as the meeting of the major industrialized countries, the euro zone summit, and the summit of the Group of Twenty), and these procedures at a single state are as follows: (Baroody, previous reference, p 21 and later on):

A. In the United States, a financial rescue plan has been prepared among the most important items of the plan allocation of \$ 250 billion to buy the assets of high-risk first stage. With the possibility of raising this amount to \$350 billion at the request of the U.S. president, it also included the plan of raising the rate of guarantees granted by the depositors of \$100 000 to \$ 250 000 for a year. In addition to the plan that included tax breaks for businesses and the middle class valued at \$ 100 billion, it also included a plan to protect taxpayers as well as protectionist policies in the field of mortgage ... etc.

B. Britain has been buying a number of shares of banks and thus has become the largest shareholder in these banks. As a result of this, they forced the banks to reduce the proportion of the exaggerated rewards given to managers, as this was a plan to rescue British banks by financing them with an equivalent of 450 billion U.S. dollars of government funds. Whereas in France, the impact of the crisis was less than that of America because of certain restrictions set by the investment banks. Furthermore, the impact of the crisis in Germany was due to the following of policies that are more financially independent from that of Britain and America. However, they have devised a plan to finance \$ 549 billion into their banks (Qantagji, Controls of the Islamic Economy in Addressing the Global Financial Crisis,p85).

These are examples of facing financial crisis at the level of individual

countries, but example of financial crisis facing the international level includes:

A. A meeting of the finance ministers of the seven major industrialized countries, which was held in Tokyo; and the contractors to work on restoring stability to the financial markets and support global growth, called for a reduction in short selling for more than a month (Qantagji, Controls of the Islamic Economy, the previous reference, p 17).

B. In America, the U.S. government has put a financial plan to save the banking sector to purchase the assets of non-existent \$ 700 billion mortgage- linked, in order to ensure better protection of savings and real property belonging to the taxpayer (Qantagji, Controls of the Islamic Economy, the previous reference, p 88).

C. Twenty nations summit which was held on 15/11 /2008, took the most important decisions which were:

Full supervision and control of banks and financial companies, and to ensure that their entry into risky operations such as high mortgage loans. Also, the ministers of the seven nations were asked to prepare a list of the financial companies whose collapsing could expose the global economy to significant risk with the view of assisting these companies.

The fourth topic:

Islamic economy solutions to financial crises: Before mentioning the claims of the Islamic economy solutions to the financial crisis, it is necessary to highlight some of the words of the postural economy theorists about Islamic economy:

A. In are port by Challenges magazine, " Bovis Vincent ", the chief editor wrote a topic titled "The Pope or the Koran", saying : " I think we need more in this crisis to read the Koran instead of the Bible to understand what is going on for us and banks, because if the decision makers and organizers of our banks had followed reportedly the Koran and the teachings on provisions and applied them, the situation would not get worse and miserable as it is, because money does not give birth to the money" (<http://www.indexsignal.com>).

B. Professor of Economics, Pastry Olivier, at the University of Paris, believed that the French government's decision to lift the restrictions and legislative tax that prevent the issuance of Islamic bonds in the country implies its desire to attract part of what he called the enormous savings for Muslim businessmen who are keen to invest their money in a way by taking into account the requirements of Islamic law (Bin Ali, Abdullah, the financial crisis forces of France to adopt Islamic transactions).

Having cited some utterances of postural legislators who called for the application brought by the Islamic Economics on their economies, we supplied some solutions brought by the Islamic economics.

A lot of people in this world wonder what are the impact of the global financial crisis on Islamic financial institutions such as banks and investment firms and the role of finance and what it implies.

The answer to this question can be ascertained from the responses of Islamic economics scholars and experts of Islamic financial institutions on financial events and global banking. Thus, this answer should highlight the concepts and rules of the economic and financial system to the people and the statement of its authority applications. In addition, it should also emphasize that such crisis occurred due to the absence of the application of the concepts, principles and systems.

The financial system and the Islamic economic and financial institutions are based on a set of rules to achieve prevention, security and stability, compared with the postural systems based on the system of interest and financial derivatives. However, the most important of these rules include:

1. The financial system and the Islamic economic are based on an integrated set of values , ideals and morals such as honesty, credibility, transparency and evidence, facilitation and cooperation, integration and solidarity. There are no Islamic economy without morality and the like, and it implies a set of safeguards which verifies the safety, security and stability for all dealers. Thus at the same time, it deprives all Islamic Sharia financial and economic transactions which are based on lies, gambling, fraud, ambiguity and monopoly, exploitation, greed and injustice and the embezzlement of people's wealth. Allah says:(When he turns His back, His aim everywhere is to spread mischief through the earth, and destroys crops and cattle. But Allah loved not mischief. When it was said to him, "Fear Allah., He is led by arrogance to (more) crime. Enough for him is Hell;-An evil bed indeed (To lie on)! And there is the type of man who gives his life to earn the pleasure of Allah. And Allah is full of kindness to (His) devotees (Quran, Surat Al-Bakara ,verse 205-207).

The commitment to the values of faith and moral is considered as worship and obedience to Allah who will reward the Muslim and adjust his behavior, whether a producer or a consumer, a seller or a buyer, in the case of the boom or bust, in the case of stability or in the case of crisis. Allah says: (Allah doth enlarge, or grant by (strict) measure, the sustenance (which He gives) to whom so He pleased. (The worldly) rejoice in the life of this world: But the life of this world is but little comfort in the Hereafter) (Quran, Surat Al-Raid ,verse26).

This vision calls for human labor for the Hereafter, and this discipline is not a matter of man's theory, but applied in Islamic history. However, as a result of this application, Islam is spreading widely in countries of East Asia due to the good behavior of the Muslim trader.

2. The financial system and the Islamic economic are based on the participation in the profit and loss according to the base of profits and losses sharing, profits. Hence, losses are distributed to all parties of the investment operations, and not on one side, such as usury. Therefore, the interaction should be real between owners of the money, business owners, experienced people and work owners according to clear standards of justice.

The right to make this effort will surely reduce the impact of any crisis since there is not always a winner team or a loser team, but all shares in the process of the profit and loss.

The Islamic religion has initiated many formats of investment which are based on Sharia , such as: speculative participation, Murabaha , and production of goods (Istisna'a) , and other tools of different investments. Speculation is the practice of engaging in risky financial transactions in an attempt to profit from short or medium term fluctuations in the market value of a tradable good such as a financial instrument, rather than attempting to profit from the underlying financial attributes embodied in the instrument such as capital gains, interest, or dividends. Murabaha means selling what it has including his own, while Istisna'a is a contract bought for money, especially in cases of something which would do well to make the seller committed in presenting materials made of his own description, specific price and specific characteristics, for more details see (Arshid, Mahmoud Abdel-Karim, the overall transactions and operations of Islamic banks, 2007, pp. 31-154). However, this is based on profits and losses sharing, and it focuses on the real economy to keep him out of the dangers of betting and trading money.

Moreover, the Islamic religion has forbidden all forms of Islamic law-based investment finance loan interest rate, which is one of the main causes of the current global financial crisis and the past global financial crisis (Sweilem, financial crises in the light of Islamic Economics, 2012, p 26).

3. Transactions in Islamic law must be based on the exchange of real goods and services so that the intended seller selling the product can attach a price tag, and have inadvertently buyer pay for the items they purchase. Also Islamic law prohibits selling price with the postponement of the cost, which is being handled by the so-called derivatives, and this section was forbidden by Islamic law when dealing with bonds and derivatives (Samhan, Hussein and others, Investment Management in Islamic banks, 2012, p190 and beyond).

This was discovered recently by postural economists that the causes of the contemporary global financial crisis of the system of the financial derivatives was because they do not lead to real economic development, but rather they served as a means of money creation that causes inflation and rise in prices. Consequently, it also caused the rapid collapse of the financial institutions that deals with such this system (Sweilem, financial crises in the light of Islamic Economics, 2012, p 37-38).

4. Islamic law has denied all formats and forms of debt, such as debt sale: discount commercial paper and discount postponed checks payment system which also forbids the rescheduling of debt with raising interest rate. The Messenger of Allah, Mohammad, forbade selling Alkali for Alkali (selling debt for debt). Postural economy scientists recognized that the reasons for the financial crisis were because of some contemporary brokerage firms which traded in debt. Therefore, this hassled to the ignition of the crisis and this was what was on ground (Sweilem, financial crises in the light of Islamic Economics, 2012, p 43).
5. The financial and economic system are based on the Islamic principle of easing the conditions of payment for the borrower who cannot repay the debt for reasons beyond his control. Allah says (If the debtor is in a difficulty, grant him time till it is easy for him to repay. But if ye remit it by way of charity, that is best for you if ye only knew) (Quran, Surat Al-Bakara, verse 208).

However, this was what turns out to postural economists that the causes of the crisis are when the debtor stopped paying the creditor. Hence, the creditor tends to raise the interest rates, rotate the loan interest rate higher or implement a mortgage on the debtor who was dispersed and expelled (Sweilem, financial crises in the light of Islamic Economics, 2012, p 43, 96). Also, they showed no mercy or protection which leads to social and humanitarian crisis caused by many of the psychological, social, political, economic problems or otherwise.

Results:

The postural economic system is based on the number of sales transactions which are forbidden in Islamic religion by the sale of debt and selling what you do not have to deal in derivatives and usury, which is the basis for the destruction of this system. Usury is forbidden in the Islamic religion as it is forbidden in all religious laws, and Sharia forbids everything that leads to the embezzlement of people's wealth unlawfully through fraudulent practices, deception, monopoly and gambling ... etc. The Islamic Sharia left all the doors open to the posts and the interaction of capital while working within the framework of profits and losses sharing. In a quick and

concise summary, we can say that compliance with the controls of Islamic economy is the only treatment and solution to financial crises, which is capable of finding appropriate solutions to what ails human problems. To this end, Allah Almighty says in the Holy Quran: (Get ye down, both of you, all together, from the Garden, with enmity one to another: but if, as is sure, there comes to you Guidance from Me, whosoever follows My Guidance, will not lose his way, nor fall into misery. But whosoever turns away from My Message, verily for him is a life narrowed down, and We shall raise him up blind on the Day of Judgment)(Quran, SuratTaha ,verse 123-124).

References:

The Holy Qur'an ,Surat Al-Bakara , verse: 276.

Mustafa Hosni, the global financial crisis, Third Scientific Conference, legal and economic aspects of the global financial crisis, Mansoura University, Egypt1-2 /4/2009

The Economic, 29/ 2/2008 / Issue 5254,
http://www.aleqt.com/2008/02/29/article_130838.html

Ibn Mandour, Mohammad Bin Karam, Lisan Al Arab, Beirut: Dar Sader, Pub1, part 12, page16.

Abdul Hamid, Abdul Muttalib, stumbled bank Debt and Global Financial banking Crisis, Al Dar Al Jamia, Alexandria, 2009, p. 189.

Abdul Razzaq, Bel Abbes, Research entitled” what the Meaning of the Crisis”, Islamic Economics Research Center, King Abdul Aziz University, pub 1.2009, p 19.

Nasir al-Din, Ai'd, Global Economic Crisis,
<http://pulpit.alwatanvoice.com/content-163244.html>.

SHabra, Mohammad Omar, the global financial crisis, could Islamic finance help to solve the global financial crisis? , Islamic Economics Research Center, University of King Aziz, pub 1, 2009, p 31.

Farid, Nasr, Mortgages and the Global Financial Crisis, the 13th annual scientific conference for Al Mansoura University, the title of the conference: Legal and Economic Aspects of the Global Financial Crisis during the period April 1 to 2, 2009, p 29.

Sinokrot, Samer, Securitization as a Financing and Investment, Journal of banks in Jordan, Amman, Volume 21, Issue 2.2002, p 35.

Abdul Razak, Balabas, the Global Financial Crisis, reading in the report of the French Economic Analysis Council, Center for Research in Islamic Economics, King Abdulaziz University, pub 1.2009, p 337.

Miqdad, Mohammed Ibrahim, the Financial Crisis and its expected effects on Palestine, www.iugaza.edu.ps/ar/Colg upload Document.

Baroody, Naima, Tsunami Mortgage to where and when, Abu BakrBelcaid University, Faculty of Economic Sciences, Algeria p 5.

www.aljazeera.net

Abdul Razak, Balabas, the Global Financial Crisis, reading in the report of the French Economic Analysis Council, Center for Research in Islamic Economics, King Abdulaziz University, pub 1.2009, p 329.

www.iefpedia.com

<http://www.elaph.com>

<http://news.syriarose.com/news/4937.html>

Baroody, Naima, previous reference, p 21 and later on.

Qantagji, Samer Madhar, Controls of the Islamic Economy in Addressing the Global Financial Crisis, Dar Al Nahda for printing, publishing and distribution of Damascus, pub 1.2008, p 85.

Qantagji, Samer Madhar, Controls of the Islamic Economy, the previous reference, p 17.

Qantagji, Samer Madhar, Controls of the Islamic Economy, the previous reference, p 88.

<http://www.indexsignal.com/vb/showthread.php>

Bin Ali, Abdullah, the financial crisis forces France to adopt Islamic transactions, <http://www.aljazeera.net/NR/exeres/CA47F140>

The Holy Qur'an, Surat Al-Bakara , verse: 205-207

The Holy Qur'an, Surat Al-Raid , verse: 26.

Arshid, Mahmoud Abdel-Karim, the overall transactions and operations of Islamic banks, Dar Al Nafa'is for publication and distribution, Amman, second edition, 2007, pp. 31-154.

Sweilem, Sami Ibrahim, financial crises in the light of Islamic Economics, University of Imam Muhammad bin Saud Islamic University, Research Chairs Program, SABIC Chair for the Study of the financial markets, Saudi Arabia, 2012, p 26

Samhan, Hussein and others, Investment Management in Islamic banks, the Arab Organization for Administrative Development, League of Arab States, Cairo, Egypt, 2012, pp. 190 and beyond

Sweilem, financial crises in the light of Islamic Economics, p37-38